

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Parma Township, Michigan	County Jackson
Audit Date March 31, 2005	Opinion Date June 6, 2005	Date Accountant Report Submitted To State: August 29, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address	City Southfield	State MI	ZIP
Accountant Signature 			



Plante & Moran, PLLC
Suite 300
750 Trade Centre Way
Portage, MI 49002
Tel: 269.567.4500
Fax: 269.567.4501
plantemoran.com

August 29, 2005

Township of Parma
c/o Mr. Donald Spangler, Clerk
P.O. Box 51
Albion, MI 49224

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the Township of Parma (the "Township") for the year ended March 31, 2005, we considered the Township's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control that have come to our attention and, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements.

The following item is considered to be a reportable condition and not a material weakness:

Cash Reconciliations

During our audit, we noted that the bank statements are being reconciled by the treasurer, but the ending balances are not formally reconciled to the general ledger. We would recommend the Township reconcile the bank statements to the general ledger on a monthly basis and keep documentation of this reconciliation. The accurate and timely preparation of bank reconciliations is vital to maintaining effective internal controls over cash, including knowledge of cash balances at any given time. Reconciling the general ledger to the bank statement is a responsibility mandated by the State of Michigan and is also an essential internal control for the Township.

We also noted the following two items which are not reportable conditions, but we feel warrant your consideration:

Agreement with Parma Village

While auditing the Township, we noted that the Township does not have a signed agreement with the Village of Parma for the village's portion of the tanker installment purchase agreement. While we understand that the Village of Parma has been making payments to the Township, we recommend that the Township obtain a signed agreement from the village to certify the arrangement.



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Capitalization Policy

We noted, during our audit, the Township does not have an approved capitalization policy. We recommend the Township institute a capitalization policy for fixed assets, including specifying an amount for which disbursements should be capitalized. We would be able to provide a sample of an appropriate capitalization policy. Having such a policy helps to ensure fixed assets are recorded appropriately in accordance with the implementation of GASB No. 34.

This report is intended for the board, management, and others within the Township. We appreciate the opportunity to serve you and would be glad to assist with the above recommendations in any way possible.

Sincerely,

Plante & Moran, PLLC

A handwritten signature in cursive script that reads "Sharon L. Vargo".

Sharon Vargo, CPA
Partner

Township of Parma, Michigan

**Financial Report
with Supplemental Information
March 31, 2005**

Township of Parma, Michigan

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Independent Auditor's Report

To the Supervisor and Members of
the Township Board
Township of Parma, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Parma, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Parma, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Township of Parma, Michigan as of March 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Supervisor and Members of
the Township Board
Township of Parma, Michigan

As described in Note 10, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004.

Plante & Moran, PLLC

June 6, 2005

Township of Parma, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Township of Parma, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005:

- State-shared revenue, our first largest revenue source, was reduced by the State of Michigan by approximately \$26,000 this year. The Township reacted by closing the office one day a week to reduce costs.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds.

Township of Parma, Michigan

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2005, in future years, comparatively, when prior year information is available:

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets	\$ 118,585	\$ 46,974	\$ 165,559
Noncurrent assets	6,775	75,059	81,834
Total assets	<u>\$ 125,360</u>	<u>\$ 122,033</u>	<u>\$ 247,393</u>
Liabilities			
Current liabilities	\$ 6,609	\$ 1,995	\$ 8,604
Long-term liabilities	65,073	-	65,073
Total liabilities	<u>\$ 71,682</u>	<u>\$ 1,995</u>	<u>\$ 73,677</u>
Net Assets			
Invested in capital assets - Net of related debt	\$ 6,775	\$ 75,059	\$ 81,834
Restricted:			
Construction code	13,415	-	13,415
Cemetery	12,197	-	12,197
Unrestricted	21,291	44,979	66,270
Total net assets	<u>\$ 53,678</u>	<u>\$ 120,038</u>	<u>\$ 173,716</u>

Governmental Activities

The Township's total governmental revenue decreased by approximately \$13,000. The decrease, which represents 4 percent, was primarily due to the decrease in state revenue sharing.

Expenditures increased by \$14,000 during the year. Increases were led by large increases in the police and fire departments.

Business-type Activities

The Township's business-type activities consist of the Water Fund. We provide water to residents in Amberton Village. We replaced curb-stop and water lines at a cost of \$58,900, resulting in an increase in expenses.

Township of Parma, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the year ending March 31, 2005, in future years, comparatively, when prior year information is available:

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue - Charges for services	\$ 38,540	\$ 23,439	\$ 61,979
General revenue:			
Property taxes	65,449	-	65,449
State-shared revenue	165,403	-	165,403
Unrestricted investment earnings and miscellaneous	2,343	216	2,559
Total revenue	271,735	23,655	295,390
Program Expenses			
General government	124,271	-	124,271
Public safety	210,903	-	210,903
Recreation and culture	9,940	-	9,940
Water and sewer	-	20,092	20,092
Total program expenses	345,114	20,092	365,206
Change in Net Assets	\$ (73,379)	\$ 3,563	\$ (69,816)

The Township's Funds

Our analysis of the Township's major funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds for 2005 include the General Fund and the Water Fund.

The General Fund pays for most of the Township's governmental services. The most significant are police and fire, which incurred expenses of approximately \$120,336. These two services are totally supported by the General Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township amended the budget to take into account events during the year. The most significant change was to decrease the estimated state revenue sharing by \$8,000. Departments' expenditures overall were above budget by approximately \$15,000. This resulted in the General Fund fund balance decreasing from \$109,000 a year ago to \$106,000 at March 31, 2005.

Township of Parma, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2005, the Township had \$381,771 invested in buildings and improvements, other tools and equipment, and the water system.

Economic Factors and Next Year's Budgets and Rates

The Township anticipates that water rates will not increase in 2006.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Township of Parma, Michigan

Statement of Net Assets March 31, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 109,375	\$ 42,524	\$ 151,899
Receivables (Note 4)	7,281	6,202	13,483
Internal balances	1,752	(1,752)	-
Prepaid costs and other assets	177	-	177
Capital assets - Net (Note 5)	<u>6,775</u>	<u>75,059</u>	<u>81,834</u>
Total assets	125,360	122,033	247,393
Liabilities			
Accrued and other liabilities	-	1,995	1,995
Installment purchase agreement (Note 6):			
Due within one year	6,609	-	6,609
Due in more than one year	<u>65,073</u>	<u>-</u>	<u>65,073</u>
Total liabilities	71,682	1,995	73,677
Net Assets			
Invested in capital assets - Net of related debt	6,775	75,059	81,834
Restricted:			
Construction code (Note 2)	13,415	-	13,415
Cemetery	12,197	-	12,197
Unrestricted	<u>21,291</u>	<u>44,979</u>	<u>66,270</u>
Total net assets	<u>\$ 53,678</u>	<u>\$ 120,038</u>	<u>\$ 173,716</u>

Township of Parma, Michigan

Functions/Programs	<u>Program Revenues</u>	
	<u>Expenses</u>	<u>Charges for Services</u>
Primary government:		
Governmental activities:		
General government	\$ 124,271	\$ 6,385
Public safety	210,903	32,155
Recreation and culture	9,940	-
Total governmental activities	<u>345,114</u>	<u>38,540</u>
Business-type activities - Water and sewer	<u>20,092</u>	<u>23,439</u>
Total primary government	<u>\$ 365,206</u>	<u>\$ 61,979</u>

General revenues:

- Property taxes
- State-shared revenues
- Unrestricted investment earnings
- Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended March 31, 2005

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business- type Activities	Total
\$ (117,886)	\$ -	\$ (117,886)
(178,748)	-	(178,748)
<u>(9,940)</u>	<u>-</u>	<u>(9,940)</u>
(306,574)	-	(306,574)
-	3,347	3,347
<u>(306,574)</u>	<u>3,347</u>	<u>(303,227)</u>
65,449	-	65,449
165,403	-	165,403
1,265	216	1,481
<u>1,078</u>	<u>-</u>	<u>1,078</u>
233,195	216	233,411
(73,379)	3,563	(69,816)
<u>127,057</u>	<u>116,475</u>	<u>243,532</u>
<u>\$ 53,678</u>	<u>\$ 120,038</u>	<u>\$ 173,716</u>

Township of Parma, Michigan

Governmental Funds Balance Sheet March 31, 2005

	Major Fund	Nonmajor Fund	
	General	Permanent Fund Cemetery Trust Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 97,393	\$ 11,982	\$ 109,375
Receivables	7,281	-	7,281
Prepaid costs and other assets	177	-	177
Due from other funds	1,537	215	1,752
Total assets	<u>\$ 106,388</u>	<u>\$ 12,197</u>	<u>\$ 118,585</u>
Fund Balances			
Reserved for - Construction code (Note 2)	\$ 13,415	\$ -	\$ 13,415
Unreserved, reported in:			
General Fund	92,973	-	92,973
Cemetery Fund	-	12,197	12,197
Total fund balances	<u>\$ 106,388</u>	<u>\$ 12,197</u>	<u>\$ 118,585</u>
Amounts reported for governmental activities in the statement of net assets are different because:			
Long-term liabilities not due and payable in the current period are not reported in the funds			\$ (71,682)
Capital assets used in governmental activities are not financial resources and are not reported in the funds			6,775
Net assets of governmental activities			<u>\$ 53,678</u>

Township of Parma, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2005

	Major Fund	Nonmajor Fund	
		Permanent Fund	Total
		Cemetery Trust	Governmental
	General	Fund	Funds
Revenue			
Property taxes	\$ 65,449	\$ -	\$ 65,449
Licenses and permits	29,962	-	29,962
State-shared revenues and grants	165,403	-	165,403
Charges for services	8,578	-	8,578
Interest and rentals	575	690	1,265
Other	1,078	-	1,078
Total revenue	271,045	690	271,735
Expenditures - Current			
General government	112,852	-	112,852
Public safety	217,221	-	217,221
Highways and streets	3,414	-	3,414
Welfare, culture, and recreation	9,940	-	9,940
Other	7,427	-	7,427
Total expenditures	350,854	-	350,854
Excess Revenue Over (Under) Expenditures	(79,809)	690	(79,119)
Other Financing Sources - Debt proceeds	78,000	-	78,000
Net Change in Fund Balances	(1,809)	690	(1,119)
Fund Balances - Beginning of year	108,197	11,507	119,704
Fund Balances - End of year	<u>\$ 106,388</u>	<u>\$ 12,197</u>	<u>\$ 118,585</u>

Township of Parma, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (1,119)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation (578)

Debt proceeds is reported as revenue in the
governmental funds but not in the statement of activities
(where it increases long-term debt) (78,000)

Repayment of debt is an expenditure in the governmental
funds but not in the statement of activities (where it
reduces long-term debt) 6,318

Change in Net Assets of Governmental Activities **\$ (73,379)**

Township of Parma, Michigan

Proprietary Funds Statement of Net Assets March 31, 2005

	Enterprise - Water Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 42,524
Receivables - Net	<u>6,202</u>
Total current assets	48,726
Noncurrent assets - Capital assets	<u>75,059</u>
Total assets	123,785
Liabilities - Current liabilities	
Accrued and other liabilities	1,995
Due to other funds	<u>1,752</u>
Total liabilities	3,747
Net Assets	
Investment in capital assets - Net of related debt	75,059
Unrestricted	<u>44,979</u>
Total net assets	<u><u>\$ 120,038</u></u>

Township of Parma, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Fund Net Assets Year Ended March 31, 2005

	<u>Enterprise - Water Fund</u>
Operating Revenue - Water services	\$ 23,439
Operating Expenses	
Operations and maintenance	12,651
Depreciation	<u>7,441</u>
Total operating expenses	<u>20,092</u>
Operating Income	3,347
Nonoperating Revenue - Interest	<u>216</u>
Change in Net Assets	3,563
Net Assets - Beginning of year	<u>116,475</u>
Net Assets - End of year	<u>\$ 120,038</u>

Township of Parma, Michigan

Proprietary Funds Statement of Cash Flows Year Ended March 31, 2005

	<u>Enterprise - Water Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 19,881
Payments to suppliers	<u>(12,515)</u>
Net cash provided by operating activities	7,366
Cash Flows from Investing Activities - Interest received on investments	<u>216</u>
Net Increase in Cash and Cash Equivalents	7,582
Cash and Cash Equivalents - Beginning of year	<u>34,942</u>
Cash and Cash Equivalents - End of year	<u><u>\$ 42,524</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 3,347
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation and amortization	7,441
Changes in assets and liabilities:	
Receivables	(3,558)
Accrued and other liabilities	<u>136</u>
Net cash provided by operating activities	<u><u>\$ 7,366</u></u>

There were no noncash transactions during the year ended March 31, 2005.

Township of Parma, Michigan

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Township of Parma, Michigan (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Parma, Michigan:

Reporting Entity

The Township of Parma, Michigan is governed by an elected five-member board. The accompanying financial statements present the Township entities for which the Township is considered to be financially accountable.

Joint Ventures

The Township, Sandstone Charter Township, and the Village of Parma support and govern the Parma-Sandstone fire board and police board. The financial statements of the Parma-Sandstone fire board and police board are not included in the report. The Parma-Sandstone fire board and police board is administered and employees are paid by the Village of Parma. The Township is responsible for 40 percent of the operations and 33 1/3 percent of the capital outlay expenditures.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Township of Parma, Michigan

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental fund:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Township reports the following major proprietary fund:

Water Fund - The Water Fund accounts for the activities of the water distribution system.

Township of Parma, Michigan

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2003 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended March 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the Township totaled \$54.1 million, on which taxes levied consisted of .8805 mills for operating purposes. This resulted in \$47,000 for operating purposes, which is recognized in the General Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Township of Parma, Michigan

Notes to Financial Statements March 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Water systems	5 to 20 years
Buildings and building improvements	40 to 50 years
Other tools and equipment	3 to 7 years

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Township of Parma, Michigan

Notes to Financial Statements March 31, 2005

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the state's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year's activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Surplus at April 1, 2004	\$ 13,009
Current year building permit revenue	15,035
Related expenses:	
Direct costs	(8,150)
Estimated indirect costs	<u>(6,479)</u>
Total construction code expenses	<u>(14,629)</u>
Surplus at March 31, 2005	<u>\$ 13,415</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township has designated one bank for the deposit of its funds.

Township of Parma, Michigan

Notes to Financial Statements March 31, 2005

Note 3 - Deposits and Investments (Continued)

Deposits

Cash and cash equivalents consist entirely of bank deposits at March 31, 2005. The bank balance of the Township's deposits is \$175,800, of which \$100,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluated each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Receivables

Receivables as of year end for the Township's individual major funds are as follows:

	General Fund	Water Fund	Total
Receivables:			
Taxes	\$ 7,281	\$ -	\$ 7,281
Accounts	-	6,202	6,202
Total receivables	<u>\$ 7,281</u>	<u>\$ 6,202</u>	<u>\$ 13,483</u>

Township of Parma, Michigan

Notes to Financial Statements March 31, 2005

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance April 1, 2004	Additions	Balance March 31, 2005
Governmental Activities			
Capital assets being depreciated:			
Buildings and improvements	10,600	-	10,600
Other tools and equipment	<u>6,746</u>	<u>-</u>	<u>6,746</u>
Subtotal	17,346	-	17,346
Accumulated depreciation:			
Buildings and improvements	3,560	265	3,825
Other tools and equipment	<u>6,433</u>	<u>313</u>	<u>6,746</u>
Subtotal	<u>9,993</u>	<u>578</u>	<u>10,571</u>
Net capital assets	<u>\$ 7,353</u>	<u>\$ (578)</u>	<u>\$ 6,775</u>

	Balance April 1, 2004	Additions	Balance March 31, 2005
Business-type Activities			
Capital assets being depreciated -			
Water system	\$ 364,425	\$ -	\$ 364,425
Accumulated depreciation -			
Water system	<u>281,925</u>	<u>7,441</u>	<u>289,366</u>
Net capital assets	<u>\$ 82,500</u>	<u>\$ 7,441</u>	<u>\$ 75,059</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities - General government	<u>\$ 578</u>
Business-type activities - Water	<u>\$ 7,441</u>

Township of Parma, Michigan

Notes to Financial Statements March 31, 2005

Note 6 - Installment Purchase Agreement

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Tanker truck - Installment purchase agreement	\$ 78,000 4.599%	2004-2013	\$ -	\$ 78,000	\$ (6,318)	\$ 71,682	\$ 6,609
Amounts of issue:							

The annual debt requirements, including principal and interest, are as follows:

	Governmental Activities		
	Principal	Interest	Total
2006	\$ 6,609	\$ 3,297	\$ 9,906
2007	6,913	2,993	9,906
2008	7,231	2,675	9,906
2009	7,563	2,342	9,905
2010	7,911	1,994	9,905
2011-2013	35,455	4,169	39,624
Total	<u>\$ 71,682</u>	<u>\$ 17,470</u>	<u>\$ 89,152</u>

Note 7 - Interfund Receivables and Payables

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Water Fund	\$ 1,537
Cemetery Fund	Water Fund	215
Total		<u>\$ 1,752</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Township of Parma, Michigan

Notes to Financial Statements March 31, 2005

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for all the above claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 - Defined Contribution Pension Plan

The Township provides pension benefits to substantially all employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. Amounts contributed are approved annually by a board motion. The Township's contributions for each employee (plus interest allocated to the employee's account) are fully vested after one year of service. The Township contributed \$3,297 during the year and employees contributed \$1,099.

Note 10 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Township of Parma has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Township has elected to implement the general provisions of the statement. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities
- A change in the fund financial statements to focus on the major funds
- Capital assets at April 1, 2004 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$201,000 to reflect the historical cost of the Township's capital assets at that date

Required Supplemental Information

Township of Parma, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2005

	Original Budget	Amended Budget	Actual	Favorable and Unfavorable Variance
Fund Balance - Beginning of year	\$ 108,197	\$ 108,197	\$ 108,197	\$ -
Revenues				
Property taxes	61,695	65,600	65,449	(151)
State sources	171,000	163,000	165,403	2,403
Licenses and permits	25,500	30,533	29,962	26
Charges for services	8,552	8,552	8,578	(571)
Interest income	3,500	450	575	125
Other	1,395	995	1,078	83
Total revenue	271,642	269,130	271,045	1,915
Expenditures - General government				
Township assessor	21,060	20,470	19,537	(933)
Township board	51,544	54,692	55,614	922
Supervisor	9,527	9,452	9,494	42
Clerk	10,372	10,201	10,115	(86)
Treasurer	17,284	17,339	13,643	(3,696)
Elections	3,904	4,239	4,449	210
Total general government expenditures	113,691	116,393	112,852	(3,541)
Public Safety				
Police	57,630	63,630	138,585	74,955
Fire	58,640	67,640	59,751	(7,889)
Building inspection and regulation activities	23,075	18,835	18,885	50
Total public safety expenditures	139,345	150,105	217,221	67,116
Highways and Streets	3,900	3,300	3,414	114
Welfare, Culture, and Recreation	10,300	10,300	9,940	(360)
Other General Fund Expenditures				
Miscellaneous expenses	-	-	1,444	(1,444)
Street lighting - Electric service	2,310	2,310	2,226	84
Retirement - Pension expense	3,235	5,540	3,757	1,783
Total other General Fund expenditures	5,545	7,850	7,427	(423)
Total General Fund expenditures	272,781	287,948	350,854	62,906
Other Financing Sources - Debt proceeds	-	-	78,000	78,000
Fund Balance - End of year	<u>\$ 107,058</u>	<u>\$ 89,379</u>	<u>\$ 106,388</u>	<u>\$ 17,009</u>

Township of Parma, Michigan

Note to Required Supplemental Information March 31, 2005

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund. Unexpended appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township did not have significant expenditure budget variances during the year, except that the Township did not budget for the proceeds for the new debt and the related capital expenditure, which was included in the police activity. The revenue and expenditures are off-set in the statement of revenue, expenditures, and changes in fund balance.